



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: October 5, 2011

ATTENTION: Rules, Open Government, and Intergovernmental Relations Committee

SUBJECT: Report from the Mayor's Office of Economic Growth Services regarding the City's ECONOMIC DEVELOPMENT STRATEGY UPDATE

REQUESTED ACTION: Review draft Economic Development Strategy.

STAFF RECOMMENDATION: Recommend that the draft be finalized and submitted to the City Council.

SUMMARY:

BACKGROUND

Council Policy 900-01 "Economic Development," provides *"the framework for a comprehensive economic development program which encourages sustainable economic prosperity throughout San Diego"* including making it a Council Policy to *"provide for a positive business climate which enhances and promotes the competitiveness of San Diego firms"* and *"aggressively pursue efforts to create new jobs and support targeted industries."* Additionally, Council Policy 900-01 provides for the submittal to Council of an *"Economic Development Strategic Plan"* to ensure that policy direction is implemented through a series of valuable business development programs which are structured to meet the needs of job creating industries.

The first economic development strategy was prepared by staff and adopted by Council 1993, and incorporated most of the recommendations of the Economic Development Task Force, a group of business, labor, government, non-profit, and academic experts and stakeholders assembled to address the high rates of unemployment caused by the Savings & Loan crisis and the downsizing of major defense contractors after the Cold War. New business development programs were created and funded by City Council. Work units were established in the Economic Development Division, such as the Office of Small Business and the Business Expansion & Retention (BEAR) Team. Other existing work units such as the Enterprise Zone Team and the Business Finance Office were expanded and enhanced. Subsequent economic development strategy efforts have occurred.

In June of 2011, EGS presented a framework for a new strategy which described the City's current economic conditions, strengths, weaknesses, and opportunities. Sufficient weight was given to the importance of the economic base upon which the retail, service, and government sectors are dependent. The full spectrum of existing programs and initiatives were listed and described, including those that

facilitate growth of the economic base, as well as those which extend the benefits of such growth more broadly by supporting small locally-owned businesses. Finally, EGS described current efforts to expand the Enterprise Zone and Foreign Trade Zone into North City, and to continue to expand the scope of the Cleantech Initiative. Council members listed particular issues and trends which they felt needed further examination and indicated that staff should return to committee with a draft document for further discussion. The draft Economic Growth Strategy presented today is the result of information gleaned from meetings with the City Council offices, public input at committee hearings, participation with local trade organizations, and interaction with business owners.

CONCLUSION

A new comprehensive strategy, which adds value to business investors capable of creating new jobs, will be useful to prioritize and coordinate the efforts of all of the City's departments. The draft strategy is focused on creating jobs in the near term, as well as longer term efforts to maintain a business-friendly environment and to ensure a balanced mix of job types at all income and skill levels. The strategy focuses on those industry clusters and sectors for which the City has a comparative advantage – namely tourism, manufacturing, and international trade, but with the most focus on those industries and businesses which are likely to hire locally and provide smart jobs. It outlines ways to communicate the value of existing programs to small businesses which are frequently unaware of the assistance, City programs can provide. The strategy is intended to be concise, readable, and useful for anyone interested in the overall picture of programs and assistance the City provides to local businesses.

FISCAL CONSIDERATIONS:

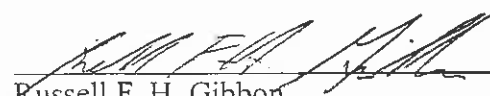
EGS staff has developed the Economic Growth Strategy. No outside consultants have been retained.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

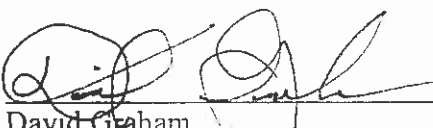
Discussions have taken place at the Rules Committee on March 24, 2010, October 20, 2010, and June 22, 2011 as described above.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

In drafting the Economic Growth Strategy EGS staff relied on interaction with the San Diego Regional Economic Development Corporation, South County Economic Development Council, San Diego North Economic Development Council, San Diego Regional Chamber of Commerce, San Diego Convention and Visitors Bureau, various trade organizations such as CleanTECH San Diego, San Diego CONNECT, BIOCOMM, and lessons learned from working with local businesses during the course of the activities of the Business Expansion And Retention Team (BEAR) and the administration of the Enterprise Zone and Foreign Trade Zone programs.



Russell F. H. Gibbon
Business Development Manager
Mayor's Office of Economic Growth Services



David Graham
Deputy Director of Policy
Office of the Mayor

GRAHAM/RHG

Attachments: 1. Draft Economic Development Strategy
2. FY 2012 City of San Diego Budget - Economic Recovery Section

ATTACHMENT 1

**City of San Diego
Economic Development Strategy
2011**

Table of Contents

| | |
|---|----|
| Current Economic Conditions | 3 |
| Base Sector Industries | 3 |
| Military | |
| Tourism | |
| Manufacturing | |
| International Trade | |
| Other Base Sector Industry Clusters and Business Establishments | |
| Importance of Small Business | 15 |
| Economic Development Programs and Business Districts | 17 |
| Business & Industry Incentive | |
| Business Cooperation | |
| Guaranteed Water for Industry | |
| Enterprise Zone | |
| Foreign Trade Zone | |
| Business Finance Program | |
| Economic Development & Tourism Support | |
| Tourism Marketing District | |
| Business Improvement Districts | |
| Small Business Enhancement Program | |
| Storefront Improvement Program | |
| Community Parking District Program | |
| Small Local Business Enterprise Program | |
| Other Economic Development Efforts | 23 |

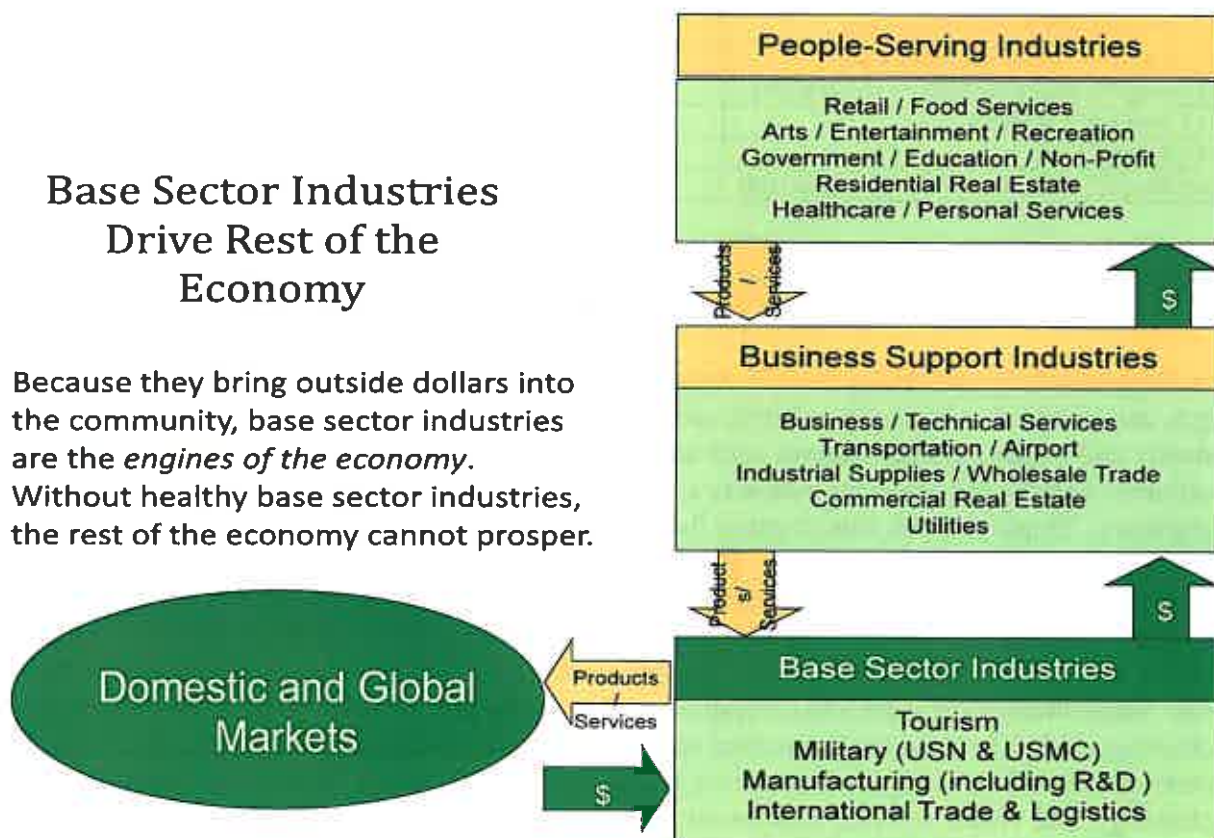
Current Economic Conditions

The economic situation in our nation has not left San Diego untouched. Despite rent improvements, reduced economic activity overall during the last 3 years has led to a persistently high local unemployment rate of around 10%. Though the unemployment rate in San Diego is below the statewide rate of approximately 12%, the need for job creation dominates the public conversation. Spending in the construction, manufacturing, finance, and real estate sectors continue to remain relatively flat, which in turn has affected the wholesale and retail sectors. The three sectors of the local economy that need support from local government are base sector, business support industries, and people-serving industries. This strategy lays out the elements of the local economy, the importance of small business, and a comprehensive discussion of the programs, policies, and efforts that can spur economic development in the City of San Diego.

Base Sector Industries

In San Diego, base sector industries include Military, Tourism, Manufacturing and International Trade & Logistics. The economic sectors and industries (mining, manufacturing, agriculture, and tourism) which earn money (capital) by producing goods or providing services to outside visitors make up what economists call the economic base of the local economy. These industries are the economic core or foundation for the local economy because they make it possible for the community to import those goods and services which cannot be produced or provided internally, or at least which cannot be produced or provided at a comparative advantage to those produced externally.

Figure 1: Understanding the Importance of the Economic Base



San Diego's competitive situation in relation to other metropolitan statistical areas (MSA's) is represented in Figure 2. Of the four MSA's that have an economy similar to San Diego's, three MSA's are located in coastal California, and all four are located on the west coast. Among all 15 MSA's, 9 are bay/harbor areas or are located very close to one. All 15 areas contain highly-educated and highly-skilled workforces, which is undoubtedly the greatest strength that each possesses. Competitive shifts, or a change in comparative advantages, are likely to arise from policy choices with respect to the costs of doing business in a particular area as weighed against the advantages of locating in a particular area.

Figure 2: Metropolitan Statistical Areas Which Compete with San Diego for Economic Activity

| 15 Competing Metropolitan Statistical Areas ≥ 1 Million Population | Competes With San Diego Based on Attractiveness to: | | | |
|---|---|--|--|--|
| | Managers of International Trade/Logistics Businesses | Managers of Manufacturing Businesses and Research Insti- tutions | Tourists and Convention Planners | Military Officers and DoD Civilians |
| #02 Los Angeles-Long Beach-Santa Ana | √ | √ | √ | |
| #04 Dallas-Fort Worth-Arlington | √ | √ | | |
| #07 Miami-Fort Lauderdale-Pompano Beach | √ | √ | √ | |
| #08 Washington-Arlington-Alexandria | | √ | | √ |
| #10 Boston-Cambridge-Quincy | | √ | | |
| #12 San Francisco-Oakland-Fremont | √ | √ | √ | |
| #13 Phoenix-Mesa-Scottsdale | | √ | | |
| #14 Riverside-San Bernardino-Ontario | √ | | | |
| #15 Seattle-Tacoma-Bellevue | √ | √ | √ | |
| #21 Denver-Aurora | | √ | | |
| #23 Portland-Vancouver-Beaverton | | √ | | |
| #31 San Jose-Sunnyvale-Santa Clara | | √ | | |
| #34 Virginia Beach-Norfolk-Newport News | | √ | | √ |
| #37 Austin-Round Rock | | √ | | |
| #49 Raleigh-Cary | | √ | | |
| San Diego-Carlsbad-San Marcos (control) | √ | √ | √ | √ |

Red Type = Competes in three of San Diego's four primary economic base segments

Blue Type = Competes in two of San Diego's four primary economic base segments

Black Type = Competes in one of San Diego's four primary economic base segments

San Diego has many advantages when attracting and retaining companies. Local universities, colleges, and trade schools provide a highly skilled and educated workforce. Collaboration between industry and educational institutions such as the Educating and Developing workers for the Green Economy (EDGE) Initiative contribute to a smart jobs workforce and provide a draw for prospective companies. Employees are able to enjoy the Mediterranean climate of the region, making it an attractive place to live, work, and play. The City is home to established business clusters with strong support networks. Clusters like the Cleantech Cluster, which has rapidly grown, have provided an attractive environment for bringing new businesses to the region and have spurred innovation. According to the San Diego Association of Governments (SANDAG) there are 16 clusters in the region. These include software and computer services, computer and electronic manufacturing, biotechnology and pharmaceuticals, medical services, defense and transportation manufacturing, and entertainment and amusement. Recreation goods and manufacturing, horticulture, environmental technology, and visitor services clusters also exist. San Diego also has the advantage of its proximity-

ty to the border and location on the Pacific Rim. With an active port, airport, and ports of entry, San Diego is well situated for domestic and international trade.

A main focus of the City's economic development efforts is increasing the size, stability, and diversification of the economic base, in order to drive the rest of the local economy. The economic base can be composed of all sizes and types of establishments, both public and private sector. Although thousands of small manufacturing and service sector businesses are part of the economic base, for the most part, the economic base is made up of the following larger non-retail businesses and nation-serving public industries.

The following sections describe the evolution and current conditions of these vital segments of the local economy.

Military

The City has a long history of working with the Department of the Navy, including the Pacific Fleet, the United States Marine Corps (USMC), the Space and Naval Warfare Systems Command (SPAWAR), along with several other commands.

United States Navy (USN)

The U.S. Navy continues to operate a number of major installations in the City including the Naval Station San Diego located in the community of Barrio Logan and stretching into the City of National City, and the Space and Naval Warfare Systems Command (SPAWAR) in Midway as well as smaller facilities in downtown, the communities of Point Loma, and Kearny Mesa. Installations in nearby Cities of Coronado and Imperial Beach provide additional payroll spending and local contracting opportunities. The Navy has stationed a total of more than 56,000 personnel throughout the County, most of these in the City of San Diego.

United States Marine Corps. (USMC)

The U.S. Marine Corps. continues to operate the Marine Corps. Recruit Depot adjacent to San Diego Bay, one of only two such training facilities in the nation, and the Marine Corps. Air Station (MCAS) Miramar. Payroll spending from a larger contingent of Marines stationed at nearby Camp Pendelton in Oceanside also contributes to the regional economy which benefits San Diego retailers and service sector businesses. The USMC has stationed over 56,000 Marines primarily in these three locations.



Space and Naval Warfare Systems Command (SPAWAR)

The SPAWAR installation has over 4,500 military and civilian employees many of them highly paid engineers. SPAWAR's overall economic impact is even greater since it contracts with many local defense contractors for additional goods and services.

The Department of the Navy has announced its intention to expand and construct new facilities throughout the County ensuring a long-term presence. The U.S. Navy has continued to move additional warships to its San Diego and Coronado port facilities which not only increases local payroll expenditures but provides significant new ship repair/maintenance contracts for local businesses.

The Department of the Navy has indicated to local contractors that it intends to continue to have a large physical presence in San Diego County and none of the existing installations are slated for closure or downsizing. This large physical presence means that these military installations will remain a pillar of stability for the local economy.



Additional information about the impact of the Department of the Navy can be found at:

<http://www.sdmac.org/2010SDMACMilitaryEconomicImpactStudy.aspx>

Conclusion

Economic development opportunities with the military sector include encouraging the viability of businesses that support the maritime industry and collaboration with the Military on its priorities including energy efficiency initiatives.

One example of a military priority that is well suited for San Diego is the Great Green Fleet initiative. Launched by the Department of the Navy in 2009, this initiative seeks to convert half of the Navy's energy to fossil fuel alternatives by 2020. Several demonstration projects have been undertaken and local alternative fuels companies are well positioned to participate. The City should support the initiative by working with the Navy to bring "Green Fleet" demonstration projects to the region and promote San Diego companies that can help the Navy reach its goal.

Tourism

Because of its warm Mediterranean climate, San Diego is a top-ranked tourist destination. San Diego competes with similar cities such as Los Angeles, San Francisco, Seattle, and Miami for vacationing tourists and business travelers. The construction of the San Diego Convention Center has dramatically improved the City's ability to attract business travelers to the City by hosting over 4,300 events since opening in 1989. According to the San Diego Convention & Visitors Bureau, the economic impact of travel and tourism is dramatic. Following manufacturing and the military, the San Diego visitor industry is the third largest industry in the county, employing approximately 152,300 San Diegans. It is one of the top five leisure vacation destinations in the U.S. and a top 10 business destina-

tion as measured by visitor-days. Visitors spend \$7 billion annually at thousands of businesses in the County. This equates to \$16 Billion in economic impact for the region and a important contributor to the economic health of the region.

In a national survey by the U.S. News and World Report ranking the best vacation spots in the U.S. and the world for 2011, San Diego ranked third in the nation and 18th in the world. San Diego ranked high in vacation destinations due to its weather, beautiful beaches, and its ability to retain its small City feel making it a popular destination for families looking for a relaxing vacation. San Diego is also ranked in the top 10 for spring break vacations.



Although tourism in San Diego has seen declines due to the recent recession, visitor related industries will continue to be a major driver of the local economy. Significant attractions include the San Diego Zoo, Balboa Park museums, Sea World, Seaport Village, the Gaslamp Quarter, Old Town, Mission Bay, Petco Park, Qualcomm Stadium, La Jolla Cove, and of course the City's world-renowned beaches.

Tourism related business establishments such as hotels, motels, restaurants and boutique retail outlets generate significant tax

revenues for the City's General Fund. The City receives a share of property tax paid by these businesses, a 1% local sales tax, and most significantly, all of the 10.5% Transient Occupancy Tax (TOT) levied on visitors staying at local hotels and motels. Additional information about the economic impact of the tourism industries can be at:

<http://www.sandiego.org/nav/Media/ResearchAndReports>

Conclusion

Opportunities to support this industry focus on efforts to make San Diego an attractive location of business travelers and tourists. The Convention Center provides an opportunity to draw business travelers and large events like ComiCon should be retained. Using the dedicated funding source provided by the new Tourist Marketing District (TMD) to promote San Diego as a visitor destination, the City can maintain one of the nation's lowest transient occupancy taxes, keeping San Diego competitive with other tourist destinations.

Manufacturing

According to the San Diego Institute for Policy Research, the manufacturing sector contributes the largest single economic impact to the regional economy, approximately \$25 billion. San Diego's manufacturers are engaged in research and development (R&D), manufacturing, sales, distribution, product servicing, and repair activities in a wide range of industries such as biotech and medical, cleantech, defense and security, food & beverage manufacturing, and telecommunications. Although the local manufacturing sector has seen declines, San Diego continues to have a comparative advantage in attracting and retaining new investment in this sector. According to Manufacturers

News, over 70,000 San Diegans are employed in manufacturing, and the City is ranked 10th in the nation based on those employment numbers.

San Diego has a comparative advantage in these industries primarily for three reasons: (1) very high labor quality including ex-military personnel with security clearances, (2) the continued presence of major primary research institutes and universities such as Sanford-Burnham, Salk, Scripps, UCSD, SDSU and related support organizations, and (3) a business culture of innovation, collaboration, and entrepreneurship which fosters the growth of smaller manufacturing businesses which produce goods for local, state, and west coast markets.

Manufacturing is extremely important from an economic development perspective and has been a major focus of the City's economic development efforts. The multiplier factors in this sector are high, ranging from 3-7 retail and service sector jobs created for each manufacturing job. Manufacturing jobs typically pay middle income wages rates, and include fringe benefits such as medical insurance. These middle income jobs are extremely important in terms of social stability and reduced municipal service delivery costs, and are more likely to be filled by local residents. Lastly, manufacturing businesses often generate higher tax revenues since capital equipment is taxable and many manufacturers sell taxable goods to other businesses and institutions in California.



Biotech & Medical Devices

Biotech industries have existed in San Diego since the late 1960's, but did not experience much growth outside of medical devices until the 1980's. Today medical device, diagnostics, and equipment manufacturers continue to thrive in San Diego, led by Alere, CareFusion, Gen-Probe, and Illumina, each of which generate significant employment opportunities and sales tax revenue to the City. Drug manufacturers Amylin Pharmaceuticals, Johnson & Johnson, Novartis, and Pfizer continue to operate major research laboratories in the University Community area.

The biotechnology industry cluster is mainly comprised of three basic industries, drugs, diagnostics, and devices. A significant number of "toolbox" companies which produce drug screening and discovery devices, reagents, and other bio-chemicals provide a complementary and supportive business environment.

The drug industry has been characterized by a high degree of risk, reward, and volatility, manifested in a massive number of start-ups, spin-offs, and mergers & acquisitions activity which results in some degree of employment fluctuation. The diagnostic, device, and "toolbox" biotech tend to be much more stable and grow steadily and consistently, and it is in these industries that most of the actual biotech manufacturing jobs can be found. The devices and diagnostic products are subject to sales tax which also has the added benefit of generating substantial tax revenues for the General Fund.

Cleantech

The cleantech industry cluster in San Diego is comprised of a number of industries which are engaged in the development, manufacturing, distribution, and installation of products which produce renewable energy, clean energy, energy efficiency, energy storage, biofuels, or other products which reduce pollution and/or natural resource depletion worldwide. Many of these businesses also provide a range of closely related services to governments, other businesses, or individual consumers. The market is driven by state and national mandates, such as AB 32, and by state and national subsidies for the manufacturing or consumption of cleantech products such as solar panels and biofuels.



San Diego's cleantech businesses include solar energy and biofuel companies while wind, hydroelectric, geothermal, electric vehicle manufacturing, are less represented at this time. The solar industry includes a major manufacturer and dozens of related businesses engaged in the financing, operating, and installation of solar energy systems used by homeowners, businesses, governments, and investor owned utilities such as SDG&E. The biofuel industry includes one small manufacturer which is already producing on a commercial scale in the Barrio Logan community, and several others which are developing a new generation of biofuels from certain strains of algae or cellulosic materials.

Much like biotech and other high-tech industries, cleantech businesses are attracted to San Diego because of its highly skilled and highly educated workforce, and because of its culture of entrepreneurship, innovation, and collaboration. San Diego's abundant sunshine creates a natural market for the solar industry. Collaboration between government and industry on cleantech initiatives and the success of CleanTECH San Diego, has spurred growth in this sector. In 2011, Smart City San Diego was launched to promote collaboration between government and industry on various clean energy initiatives including the roll out of local Electric Vehicle (EV) infrastructure. These efforts and others make San Diego a leader in the cleantech sector.

Defense & Security Systems

Four of the City's 10 largest employers are in the Defense & Security Systems industry cluster: defense contractors General Atomics, General Dynamics, Northrop Grumman, and Science Applications International. Dozens of smaller and medium-sized defense contractors and sub-contractors contribute to a cluster of related industries manufacturing unmanned aerial vehicles (UAV's), aerospace components, avionics, C4ISR systems, and other products sold to the U.S. Departments of Defense, Homeland Security, and foreign governments.

During the early 1990's the end of the cold war resulted in a fairly massive and rapid reduction of the number of defense contracts let by the U.S government. Rising energy and insurance costs in California squeezed margins to the point that major aerospace contractors like General Dynamics decided to close or downsize operations which had been in existence for decades, resulting in a shock to the local economy due to the loss of tens of thousands of jobs.



While the talk of defense conversion was a way for some impacted companies to convert to new markets, many San Diego defense contractors adapted by developing more sophisticated products with greater profit margins consistent with advancements in military science and military intelligence.

Today, San Diego's defense contractors are strong, employing tens of thousands of San Diegans in fulfillment of contract values exceeding \$8.9 billion in 2009. The fastest growth has occurred in the manufacturing of unmanned aerial vehicles (UAV's) and related systems which are also experiencing rapid job growth.

Electronics & Telecommunications

Electronics and telecommunications businesses have been a major part of San Diego's economy since National Cash Register (NCR) built its sprawling 113-acre computer manufacturing plant in Rancho Bernardo in 1968. In the early 1970's Kyocera, Sony Electronics, and Hewlett-Packard soon followed, creating a wave of new investments in semiconductors, circuit boards, computer peripherals, and a wide variety of electronic components, integrated systems, and other products throughout the 1980's. All of these industry leaders still have major headquarters (HQ), research & development (R&D), and manufacturing operations in the San Diego communities of Rancho Bernardo and Kearny Mesa.



During the 1990s several companies, which had developed advanced wireless communications technologies for military or security applications, launched commercial endeavors, such as the manufacturing and commercialization of cellular telephones, data storage and encryption products and technologies, and other products which ushered in a new wave of investment in these and related industries such as software and web development.

By 2000, the "tech wreck" combined with energy deregulation, rapidly escalating California insurance costs, and improving labor

skills in Asian countries led to a series of devastating plant closures in the local semiconductor, circuit board, and television industries. Between 2000 and 2005 thousands of job losses occurred in Rancho Bernardo, Mira Mesa, and Kearny Mesa, San Diego's traditional hubs for these and related industries. Plans for large new industrial complexes by Intel and Sun Microsystems were cancelled and the City's cellular phone manufacturers began to relocate manufacturing and later R&D operations.

Much like the defense adaptation which took place in the 1995-2005 period, San Diego electronics and telecommunications companies began to focus on government and business-to-business markets, offering enterprise class systems and solutions which tended to have higher margins, and were sold with long-term service contracts. San Diego's electronics and telecommunication cluster is smaller than its peak in 2000, but appears to have stabilized at current levels.

Food & Beverage Production

The food and beverage industry has quietly emerged as a viable source of job growth during the last ten years. Like many of the other San Diego industry clusters, this industry cluster thrives on value, labor skill, the support of local consumers and the business savvy of local entrepreneurs. San Diego County has a significant number of specialty foods manufacturers and the City has captured its fair share of these businesses. Otay Mesa is emerging as a geographic hub of processed specialty foods due to its relatively low land and labor costs. Several companies in that community are producing significant volumes of specialty foods which are sold at discount retail chains and international membership warehouse stores.



The craft brew and microbrewing industry has recently emerged as a source of job growth. These businesses tend to be located in the North City and North County areas and several have won international acclaim due to the development of very high quality beers. The close proximity of many of these local breweries facilitates a form of tourism as aficionados of fine ales, porters, stouts, and barley wines can travel to several locations in an afternoon for brewery tours. Patrons can sample beers in tasting rooms and purchase bottled beers in the same way as people frequent the wineries of Napa, Sonoma, and Temecula. San Diego is emerging as one of several hubs of craft/microbrewing similar to Denver and Portland.

Conclusion

Economic development opportunities in this sector center on incentives, legislative advocacy, and collaboration. Food clusters also provide an emerging area for the expansion of businesses of all sizes.

One of the main incentives the City provides is tax credits for businesses in the City's California Enterprise Zone Program. This program has been threatened by budgetary shortfalls at the state and will require vigilant advocacy in the future. The City should support the continuation of the program and expand the San Diego Regional Enterprise Zone program into new areas so that more businesses can participate. Potential expansion areas include many of the North City industrial parks which were identified as Prime Industrial Lands.

Legislative advocacy is another tool to create a friendly environment for manufacturing. Collaboration with local trade organizations on regulatory reform and municipal regulations that affect industry is important for business retention and attraction. The City's should work with local businesses and trade organizations on updates to the City's Legislative Program.

The San Diego region has the ability to create a sustainable and secure food supply with its many resources including significant agricultural resources and burgeoning food production in the Otay Mesa area. The City should encourage the viability of food clusters including local food processing, wholesaling, and distribution through the use of zoning and economic development incentives. In 2011, the City participated in the San Diego Urban/Rural Roundtable to create recommendations for a more sustainable food supply. This collaboration which included the County of San Diego, local food producers, growers, distributors the San Diego County Farm Bureau, and 100 local leaders is a model for future efforts to improve the regional food system. The BEAR team should work to identify favorable locations for food and beverage production businesses and expedite permitting.

International Trade

San Diego's proximity to Mexico provides the City with an important comparative advantage in terms of capturing international trade activity. The United States is Mexico's largest export market consuming over 80% of Mexico's goods, approximately \$230 billion. Conversely, the United States exports approximately \$163 billion worth of goods to Mexico. San Diego's City Limits extend to the international border and its population of 1.3 million people is by far the largest of any city bordering Mexico. This juxtaposition gives San Diego a unique and special position with Mexico as a gateway city. The San Ysidro Port-of-Entry is reportedly the busiest in the world, due in part to the sheer size of the San Diego-Tijuana metropolitan area which has a population estimated at over 6 million people. Thousands of workers and tourists purchase goods and services on both sides of the border every day.

The Otay Mesa Port-of-Entry at the border accommodates approximately 775,000 tractor-trailer trucks annually, carrying goods valued at approximately \$27 billion. The Otay Mesa commercial border crossing is adjacent to several large industrial parks containing over 14 million square feet of existing industrial space and over 1,000 acres of developable industrial land. This part of the City has been designated by the State as an Enterprise Zone and since 1988 designated by the federal government as a Foreign Trade Zone (FTZ). These designations allow businesses involved in international trade to claim lucrative state income tax credits and the ability to defer, reduce, or eliminate U.S. Customs duties. In 2011, the City restructured the FTZ program to a new format, the "alternative site framework" or ASF. This new structure allows companies to obtain approval to activate as an FTZ facility quickly. The recent and proposed construction of several modern distribution centers, comparatively low lease rates, tax and duty advantages, and the completion of the 905 Freeway will enable the City to position itself as an attractive location for trade-servicing and logistics companies.



Additional information about international trade with Mexico can be found here:

<http://www.census.gov/foreign-trade/balance/c2010.html>



The Port of San Diego in downtown also facilitates international trade activity through its 10th Avenue Marine Terminal, which together with other facilities in or near Port Tidelands provides for over 5,000 jobs at compensation of approximately \$59,000/annually. Air freight passing through San Diego International Airport (Lindbergh Field) also con-

tributes to the creation of middle income job opportunities. More information about maritime trade at the Port of San Diego can be found here:

<http://www.portofsandiego.org/about-us/view-financial-information/447-economic-and-fiscal-impact-of-port-tidelands.html>

Conclusion

Economic development opportunities in this sector focus on improving infrastructure and enhancing the region's trading ability.

The City should continue to seek state and federal funding for improvements to border-related infrastructure such as completion of the 905 Freeway and important collector streets such as Siempre Viva Rd. Ongoing and future improvements to the ports of entry should be pursued with a focus on enhancements to the commercial potential of cross-border trade.

The Port of San Diego is updating its Strategic Plan. The City should collaborate with the Port on identifying barriers to trade and a collaborative approach to improving trade infrastructure. Further involvement with the World Trade Center can raise the international profile of San Diego and make the region attractive to foreign investors and trade opportunities.

Other Base Sector Industry Clusters and Business Establishments

Major Corporate Headquarters Establishments

San Diego is also home to a number of significant corporate headquarters, large administrative offices, and primary research institutions which employ thousands of San Diegans and help to establish the City as a well-renowned location for business.

Software & Web Development

San Diego has had a significant number of important software development businesses, on-line retailers, and analytics services businesses which complement the City's high-tech manufacturers and research institutions. These businesses also employ many thousands of local residents providing very high paying salaries and many also generate sales tax revenues for the City's General Fund.

Conclusion

The economic development opportunities in these areas lie in concerted business attraction and retention activity. Attracting and retaining major corporate headquarters is well served by engagement from leaders in the public and private sectors. The Office of the Mayor, City Council, local trade organizations, the San Diego Regional Chamber of Commerce, San Diego Regional Economic Development Corporation all collaborate to varying degrees on business attraction and retention efforts. Aggressive competition from cities in other states, and economic pressure can prevent a company from locating in San Diego. Pro-active engagement by local leaders and reducing the uncertainty of locating in San Diego is important to attracting companies to the City. The BEAR Team have been successful in helping companies navigate local permitting and land use regulations. Future City efforts should focus on collaborating on marketing the region, developing strong bonds with existing companies, and improving local regulations that may be a barrier to business attraction.

The Importance of Small Businesses in San Diego

The City of San Diego understands the important role businesses play in the strength of the region's economy and its quality of life. The City offers an array of business finance and incentive programs, which are administered by Economic Development and Economic Growth Services staff, along with training, contracting assistance and resources through other City departments. The City also supports a number of business programs by collaborating and investing in partner agencies.

In recognition of the key role of small businesses with more than 90,000 businesses registered with the City of San Diego and of those, more than 93% have 12 or fewer employees the City, the Office of Small Business provides entrepreneurs with start-up information, development programs, and advocacy and referral services to enhance their success and promote a business friendly climate. The City of San Diego is committed to finding new ways to provide services and assistance to all businesses and is vested in assisting small businesses in recognition of the vital role they play in supporting the fabric of the community, the regional economy and potential job development.

San Diego's development patterns, its geography and even its climate is conducive to the growth and prosperity of small retail and service sector businesses operating from older structures in "Main Street" corridors throughout the City. These Main Street corridors are mostly found in the central part of the City between Adams Avenue in the north to Imperial Avenue in the south.



These older commercial corridors offer a more nostalgic shopping experience which often includes authentic and diverse dining and entertainment experiences. Street fairs, car shows, and farmers markets offer shoppers an experience that is tied to the rich flavor of that community. By encouraging small businesses to succeed, the City can maximize the benefits of the economic base by stimulating new economic opportunities in the form of yet more jobs and opportunities for entrepreneurship.

Since 1991, the City has created and continues to create and administer various programs designed to support small businesses throughout the City, with a special focus on these treasured commercial corridors. These programs are discussed along with those designed to support base sector industries, towards the end of this strategy

Conclusion

Economic development opportunities in the small business sector include improving the accessibility of City services, and promoting business incentive programs including to underserved communities. There are also small business opportunities in the areas of community garden and urban farming.

The City has created an Ombudsperson in the Development Services Department that should be maintained to serve as a Small Business Liaison on permitting and regulatory issues. Future amendments to codes and ordinances can be identified by having a central representative that interfaces with small businesses on regulatory relief. To facilitate ongoing improvements to codes and ordinances sunset clauses should be considered.

Promotion of the City's programs should be a priority. The City should continue to provide a "one-stop shop" that provides information on city programs and economic development efforts. This can be accomplished with one or more Businesses Resource Centers. Education efforts should also target underserved areas and business owners that may not voluntarily seek out city programs. The goal should be to raise awareness of the programs the City provides and improve the City's programs with input from the public.

In 2011, the City revised its codes and ordinances to encourage community gardens and urban farming. The City should participate in policy-making supporting the regions farmers and urban agriculture in order to increase locally grown produce, link local producers to local markets, create jobs, and re-circulate food dollars in the local economy. This can be accomplished by encouraging the development of a permanent "Pubic Produce/Food Market" in the City where residents and local restaurants can purchase locally grown produce on a daily basis at one centrally located venue. Food system policy and changes to local codes and ordinances can help existing and future small businesses.

Economic Development Programs & Business Districts

The City of San Diego provides a variety of programs that are focused on the retention, and expansion of local businesses and the attraction of new businesses to the area. These programs form the backbone of the City's economic development strategy. Increasing the promotion of these programs and helping companies avail themselves of the benefits they provide will enhance the local economy.

The Business & Industry Incentive Program - Council Policy 900-12

The Business & Industry Incentive Program was created by the San Diego City Council in 1993 to improve the business climate of the City, by providing certain financial incentives, and permit assistance to a variety of business investors citywide. This program serves as the City's primary economic development platform, and its incentives may be combined with those from other City programs such as the *Enterprise Zone Program*, the *Business Finance Program*, the *Business Cooperation Program*, the *Guaranteed Water For Industry Program*, and with other incentives offered through the City's Redevelopment Agency or through State and Federal programs and incentive zones. Businesses that are consistent with the City's current Community & Economic Development Strategy and:

- Provide significant revenues and/or jobs that contribute to a healthy economy; or
- Promote the stability and growth of City taxes and other revenue; or
- Construct appropriate development in older parts of the City; or
- Are being induced by other jurisdictions to relocate from San Diego;

Can receive ministerial "off-the-shelf" incentives approved at the staff level such as: Assistance in determining the density entitlements or development requirements for real property ("due diligence") plus assistance and expedited review for obtaining any necessary permits required for land developments or to modify an existing building or other structure.

These same businesses may also receive other discretionary incentives recommended by staff and approved by the San Diego City Council, such as: A reimbursement of all or a portion of building and/or development-related fees collected by the City in connection with the issuance of building permits for new commercial and industrial buildings and structures.

The Business Cooperation Program

The Business Cooperation Program was adopted by the City Council in 1996 and is designed to simultaneously lower the cost of doing business in San Diego while at the same time generating new sales and use tax revenue to fund essential City General Fund services. Businesses and non-profit firms frequently have options regarding how they can report the local 1% sales and use taxes, and certain reporting methods can result in a net increase in the amount of tax allocated to the City by the State Board of Equalization. This program allows City staff to provide sales and use tax rebates to businesses which participate in the program. This program provides tax rebates equal to 50% of any net additional tax revenue received by the City.

The Guaranteed Water for Industry Program

The Guaranteed Water for Industry Program was adopted by the San Diego City Council in 1998 to address industry concerns regarding the potential for mandatory water conservation measures in the event of a future drought. Manufacturing plants, data centers, and research laboratories are highly sought after due to the significant fiscal and economic benefits which they provide to the City.

However these capital-intensive operations frequently need large volumes of water to operate their production and cooling systems. These firms need assurances that they will not be subject to future “cut-backs” or other mandatory conservation measures due to water shortages.

This program provides that when such firms use reclaimed water to the extent possible, and implement minor potable water conservation measures, they can be exempted from mandatory Level 2 conservation measures in the event of a drought. This program is designed to benefit San Diego industrial businesses within the Optimized Zone. The Optimized Zone is a designated area within the northern part of San Diego which has reclaimed water infrastructure. The Mayor’s Office of Economic Growth Services works closely with the Water Department to assist manufacturers and research organizations in obtaining the necessary approvals from the County Health Department and California Department of Health Services to utilize reclaimed water. This program currently has three participating businesses with more certifications expected in the coming years.

The Enterprise Zone Program

An Enterprise Zone is a defined geographic area in which businesses can claim certain state income tax savings and other advantages. Enterprise Zones (EZ) were created in California to stimulate business investments in areas that are economically disadvantaged and to spur job growth in area of high unemployment. Enterprise Zones are designated for fifteen years.

Businesses that operate in an EZ can claim tax credits for employee wages and manufacturing equipment purchases. Businesses are also offered job referral services, development permit expediting and assistance, tax savings on loans, reductions on certain development fees, and access to specialized technical and financial assistance programs. San Diego’s Regional Enterprise Zone (SDREZ) is located throughout the City of San Diego including communities in the South Bay area near the U.S.-Mexico border and in portions of the cities of National City and Chula Vista. A special enterprise zone or LAMBRA is also located at the Naval Training Center Redevelopment Project Area, which includes Liberty Station, near Downtown. .

- Tax credits may be claimed on up to half the wages paid to qualified new employees.
- Tax credits may be claimed for sales taxes paid on equipment purchased for manufacturing or production purposes.
- All net operating losses may be carried forward as a deduction in future years.
- Business equipment depreciation can be accelerated, up to a limited amount.
- Low-income employees can claim their own personal income tax credits.
- The state will give priority for Industrial Development Bond applications.
- The state will award procurement preference points for EZ companies on state contracts.
- The state will award preference points to EZ non-profit organizations on certain state grants.
- Lenders (both commercial and private) may deduct net interest income on loans to EZ businesses.
- The EZ Job Referral Service will assist with recruitment and pre-screening for new employees to determine eligibility to claim hiring tax credits at no cost. City staff can expedite development permit applications and serve as liaison with other City departments.
- New development projects located in the City's Enterprise Zone are eligible for direct assistance by the City. Assistance includes help in determining project application requirements, fast track permit processing, liaison help in the development process.
- The City can provide an exemption from Housing Impact Fees normally charged on new qualifying industrial development projects.

Past expansions of the Enterprise Zone have allowed the program to be used by businesses in various parts of the City. Future expansions should be pursued focusing on existing job centers to promote the retention of local companies, and the attraction of new businesses to San Diego.

The Foreign Trade Zone Program

The Foreign-Trade Zones (FTZs) Program was authorized by Congress in 1934 and is used to encourage value-added activity at U.S. facilities in competition with foreign alternatives by allowing delayed or reduced duty payments on foreign merchandise, as well as other savings. Foreign-Trade Zone No.153, established in San Diego, California on October 19, 1988 is administered by the City of San Diego as the Zone Grantee for the San Diego FTZ program.

In the global marketplace, many companies consider moving to foreign facilities to reduce costs. The benefits of the Foreign-Trade Zones program may be the competitive advantage that companies need to keep their manufacturing or distribution operations in the United States. These include:

- **Duty Deferral** - Delayed payment of Customs duties on goods that enter the U.S. market.
- **Duty Exemption** - No duties on or quota charges on imported goods that are later re-exported.
- **Inverted Tariff** - Reduction of duties if a lower tariff rate applies to the finished product leaving the zone than the tariff rates that would have applied on foreign components.
- **Logistical Benefits** - Reduction in merchandise processing fees by consolidating multiple customs entries to a single entry and pay a single entry fee rather than multiple entries during the course of a week.
- **Other Benefits** - Elimination of duties on waste, scrap and rejected or defective parts
-

The City of San Diego's Foreign-Trade Zone General Purpose Sites are located in the southern part of the City in the Otay Mesa community near the U.S./Mexico border. Besides being close to the booming maquiladora industry of Baja California, Mexico, and adjacent to Tijuana, Mexico, the sites are located near Brown Field Airport and Tijuana International Airport, and about 20 miles from San Diego International Airport. The Port of San Diego is in proximity. More than 1,500 acres of finished and unfinished, industrial land has been pre-designated as eligible for Foreign-Trade Zone use. There are eleven (11) Foreign-Trade Zone General Purpose sites. Additionally, importers/exporters not located in a General Purpose site may take advantage of the benefits of the Foreign-Trade Zone without relocating by contracting with an approved Foreign-Trade Zone No.153 third party logistic company.

Business Finance Program

The San Diego Regional Revolving Loan Fund (SDRRLF) and Small Business Micro Revolving Loan Fund (SBMRLF) offer financial assistance from small to mid-size business owners with expanding businesses that require capital, but are unable to meet the terms of traditional banks. The Revolving Loan funds can supplement private financing of new or rehabilitated buildings, fixed machinery and equipment, working capital and soft costs. This gap financing program ranges from \$25,000 to \$150,000 in the SBMRLF and \$150,000 to \$500,000 in the SDRRLF. The loan program covers businesses in the cities of San Diego and Chula Vista. Through careful screening of loan applicants and creative loan structuring, the program can get business owners closer to their goals.

Economic Development & Tourism Support Program - Council Policy 100-03

The City's Economic Development and Tourism Support (EDTS) Program provides Transient Occupancy Tax funds through a competitive merit based application process, to qualified nonprofit, tax-

exempt organizations that produce programs and events that improve the City's economy by boosting tourism, attracting new businesses, and increasing jobs in the area.

In general, the EDTS application will be made available in December or January. The applications are generally considered by a review panel over the following months. The panel recommendations are submitted as part of the annual budget. City Council considers the recommendations during the City Council Budget Hearings. Recommendations are considered finalized when the City's annual Appropriation Ordinance is adopted.

The Tourism Marketing District

The San Diego Tourism Marketing District follows the model of Tourism Business Improvement Districts (BID's) that utilize the efficiencies of private sector operation in the market-based promotion of local and regional tourism. Tourism BID's, such as the SDTMD allow lodging and other tourism-related business owners to organize their efforts to increase tourism. In San Diego, lodging business owners within the district assess themselves to fund the District and those funds are used to provide programs and services that specifically benefit the assessed lodging businesses.

The Business Improvement Districts

San Diego's Business Improvement Districts (BID's) are City-designated areas where the business owners are assessed annually to fund improvements and activities to promote the economic revitalization and physical maintenance of the community. The City collects assessments of more than \$1.3 million annually and partners with merchants associations to implement programs to promote the businesses and revitalize many of the City's older commercial neighborhoods.

The Office of Small Business administers the BID program which is the largest in the State of California and one of the most active in the nation. The program dates back to 1970 with the creation of the Downtown Improvement Area, California's first metropolitan downtown district. Since that time, the small business community and the City of San Diego have created 18 separate districts, with two more in the preliminary stages of formation. More than 11,000 small businesses participate.

A BID provides a business area with the resources to develop marketing campaigns, increase awareness and lobbying efforts, secure additional funding and enhance public improvement and beautification projects in partnership with the City. An organized business community can work more effectively to create positive change and increase support for businesses in the area.

The BIDs have developed a variety of successful marketing activities that generate business for the districts. These activities range from special events such as restaurant tours, block parties, weekly farmers markets and holiday festivals to developing public relations and marketing materials. BIDs use the Internet, develop coupon books, coordinate cooperative advertising campaigns and develop and distribute district brochures. BIDs also coordinate some of San Diego's most popular, large-scale street festivals, including the Adams Avenue Street Fair, Gaslamp's Mardi Gras and Hillcrest's CityFest. BIDs also market the districts to potential businesses in an effort to reduce vacancies, provide a good mix of businesses and strengthen the BID. All of these activities help to further market the district to customers.

Many BIDs receive additional funding through various City grant programs. BID assessments are often used to leverage funding for a variety of projects. While a BID pools its resources through assessment, the City of San Diego is allocating millions of additional dollars to many of the same business development and revitalization goals within BIDs.

Many of San Diego's BIDs receive funding from the City's Transient Occupancy Tax and from City parking meter revenues. Several of the BIDs also run very successful special events and secure corporate sponsorships for various projects, which helps to supplement business improvement projects. The City also invests millions of dollars in many of the City's BIDs through extensive streetscape improvement and redevelopment projects.

The City of San Diego is committed to supporting BIDs because they are strengthening the small business community, creating new jobs, attracting new businesses, and revitalizing older neighborhood commercial districts across the city. To improve and diversify the economic base of the districts, the City's Office of Small Business assists the BIDs with market assessments, sales tax revenue assessments, business plans, property owner assistance, retail recruiting, and database collection to measure neighborhood economic activity.

Small Business Enhancement Program (SBEP)

This program focuses on expanding economic opportunities for small businesses by supporting not-for-profit organizations which provide specialized services to small businesses citywide. It is expected that Small Business Enhancement Program funds will be leveraged by recipients to enhance small businesses services with the purpose of creating, growing, and retaining small businesses in San Diego. Examples of the services and training provided include business development, contracting and procurement, disability accommodations and technical assistance training.

The Storefront Improvement Program – Council Policy 900-17

The Storefront Improvement Program (SIP) revitalizes building facades visible to customers, neighboring merchants, and residents. The City of San Diego provides design assistance and financial incentives to small business owners who wish to make a creative change to their storefronts.

All applications are subject to review for eligibility. The City's Storefront Improvement Program is open to small businesses (12 or fewer employees) located in the City of San Diego with a current Business Tax Certificate.

Program Exclusions: national franchises, large office buildings in excess of 80,000-square-feet, residential rental buildings (apartments), home-based businesses, structures not facing the public right-of-way, government owned and occupied buildings, churches and other religious institutions. Also ineligible are properties that have received a SIP rebate within the last five years and projects that have already begun or completed renovations/construction.

Eligible Improvements: repair, replacement or new applications of awnings, windows, doors, lighting, paint, landscaping, tile or other decorative material, and signs. Also eligible for rebate is removal of security bars and code compliance for signage violations.

Redevelopment Project Areas: Property owners and/or business tenants with qualified storefronts in redevelopment project areas managed by the City's Redevelopment Department are also eligible for the Storefront Improvement Program for Redevelopment Project Areas.

The City of San Diego offers three different rebate options through the SIP:

- **Standard Projects:** awards the applicant for one-third of the construction costs up to a **maximum of \$5,000**.

- **Historic Projects:** awards the applicant for one-half of the construction costs up to a **maximum of \$7,500**. To qualify for the historic incentive, the subject property must be designated by the City's Historic Resources Board as a historic structure and either classified as a contributing structure to a historic district or included on a locally defined historic building inventory. Furthermore, improvements must be consistent with the historical character of the property.
- **Inclusion of Public Art:** awards the applicant for one-half of the construction costs up to a **maximum of \$7,500**. To qualify for the public art incentive, the property owner must show evidence of the engagement of an Artist as defined by San Diego Municipal Code Chapter 2, Article 6, Division 7: Commission for Arts and Culture. An Artist must be engaged to participate in designing, or specifying, or designing and fabricating elements related to the storefront improvement.
- **Multiple Tenant Building Projects:** awards property owners with a commercial building that leases to multiple small business tenants up to a **maximum of \$10,000**. Large office buildings in excess of 80,000-square-feet are excluded from the program. \

The Community Parking District Program

The City has a two-pronged approach to address parking concerns in older commercial neighborhoods. The Parking Advisory Board was created by ordinance in 2004 (City Council Policy #100-18) to advise the City on broader policy issues related to parking, and especially as to the impacts on commercial neighborhoods.

The City also established the Parking Meter District Program in 1997 to provide parking impacted commercial communities with a mechanism to devise and implement parking management solutions. The Program was updated and renamed the Community Parking District Program in 2004.

There are currently six designated community parking districts within the City. A portion of the revenue from parking meters within these districts may be used to implement solutions such as parking lots, parking structures, valet parking, parking/transportation signage, and related extraordinary landscaping, maintenance, and security.

The Small Local Business Enterprise (SLBE) Program

In order to provide economic opportunity for its residents and businesses and stimulate economic development, the City has developed and implemented various policies that directly impact how public funds are spent. These policies are aimed at using the power of the public purse to stimulate economic development through the support and empowerment of the local community, especially those aspects of it that have been placed at a disadvantage in the past. The major programs that were created to serve these respective groups are: Mentor Protégé Program, Subcontracting Outreach Program (SCOPE), and the Minor Construction Program.

The SLBE Program supports policies that established a 20 percent participation requirement and a minimum bid discount of 2 percent for meeting that requirement. In addition to bid discounts, the Program provides for additional points in negotiated professional services contracts and increased points and discounts as the level of local and small local business participation increases. The intended impacts include: increasing the number of certified businesses participating in City contracting and in development projects, increasing the circulation of City dollars within the community and

thus stimulating stronger economic activity, and promoting the development of certified businesses through joint ventures and mentor/protégé relationships.

The new policies provide economic opportunity to local residents and businesses by supporting local economic development while paying competitive prices for goods and services. At the same time, the Program does not obstruct efforts to attract outside investments that are critical to the City's economic growth.

Other Economic Development Efforts

Business Resource Center

A recent initiative implemented by the City of San Diego to provide businesses with access to pertinent information was the creation of a pilot Business Resource Center (BRC) funded by a grant from the U.S. Small Business Administration. The BRC kiosk is located in the lobby of the City Administration Building and showcases information available through the City's web-based Virtual Business Resource Center along with other current announcements and provides "way-finding" assistance to visit City and partner agency offices. Upon completion of all phases of the City's Virtual Business Resource Center business owners will be able to learn how to navigate through the process of starting or growing a business, access resources, complete online forms, make payments online, and explore partner programs. Additionally, other BRC kiosks will be made available at other City office locations and potentially at partner agency offices.

A comprehensive Business Resource Guide complements the information available on the virtual BRC. Additionally, collateral materials are to be produced to support business outreach and marketing efforts to increase awareness of the "One-Stop" BRC.

Economic Roundtables

The Mayor's Civic Leadership Committee (Committee) has worked to implement a broad strategy to reduce unemployment and increase taxable capital investment throughout the City. The Committee defined four focus areas which needed additional time and resources, and where opportunities existed to create more public-private partnership arrangements:

(1) Enhanced business expansion, attraction, and retention efforts

The Mayor began direct on-site conversations with the City's major manufacturers in the defense, biotech, cleantech, and food/beverage industries. These outreach efforts included tours of local factories and R&D laboratories throughout the City as well as groundbreaking and grand opening ceremonies, the Maritime Summit, the Security Summit, BIO 2008, and other assemblies of business investors. Non-profit organizations including trade associations, chambers of commerce, and economic development corporations were included in the efforts which also included focused workshops on the benefits of the San Diego Regional Enterprise Zone.

(2) Efforts to streamline business regulations

The Mayor directed staff to examine local codes to present recommendations to City Council for amendments which would remove duplicative regulations and cumbersome processes which were known to frustrate business investors but which did not meaningfully advance public safety, environmental protection, or quality of life objectives. Recommendations are to be proposed to Council through the periodic updates to the City codes and ordinances or through individual proposals from the various City departments. Municipal Code revisions have included changes to the Land Development Code, parking regulations, and the sustainable building policies and codes. One example are

changes to parking regulations that led the City attracting the first in the nation All-Electric Vehicle Cat-Sharing Pilot Program.

(3) Cleantech Initiative & Smart City San Diego

In 2007, the City launched a new Cleantech (Clean Technology) Initiative in an effort to promote the expansion, attraction and retention of businesses that develop products and technologies that provide environmentally sustainable solutions. Clean technologies enable a more valuable use of natural resources and reduce ecological impacts to the region. The Initiative seeks to develop an emerging cluster that will create new job opportunities in these emerging industries. The City should pursue partnerships with local educational institutions, trade organizations, and businesses to aggressively seek state and federal grants. Demonstration projects, workforce training, and grants for the development of new technologies and fuels, are available. The City's Cleantech Program Manager and the Mayor's Office of Intergovernmental Relations should coordinate with public and private partners to seek grant funding. The Cleantech Initiative led to the creation of Smart City San Diego, an award-winning collaboration between the City, CleanTECH San Diego, GE and SDG&E.

(4) Business infrastructure development

The Mayor has directed the Engineering & Capital Projects Department and the General Services Department to work closely with state and federal agencies to advance long-planned projects which would facilitate logistics and international trade opportunities. Such projects include completion of the 905 Freeway and Cross-border Terminal in Otay Mesa, completion of the Cruise Ship Terminal downtown, the clearing of drainage channels in the Grantville and Sorrento Valley industrial areas, and the completion of the Carroll Canyon Rd. undercrossing in Sorrento Mesa. In several instances the City was able to access federal stimulus funding or to pursue regulatory changes which resulted in new private infrastructure improvements which are vital to the movement of goods, workers, and visitors in and out of the City.

Industrial Development – Council Policy 900-04

This Council Policy was adopted at the same time as Council Policy 900-03 and established specific roles and responsibilities for the City, its Redevelopment Agency, and the Economic Development Corporation (EDC) as they relate to the marketing and ultimate development of City-owned industrial real estate. The EDC is to market City-owned properties and the City is to facilitate the development process including “preparation and processing of community or general plan amendments,” “assist ... 1911 and 1913 assessment districts,” and “expediting the various permit processes,” etc. The City is to “financially support marketing of the San Diego Region by the EDC and/or other appropriate entities.”

Management and Marketing of City-Owned Industrial Property – Council Policy 900-03

This Council Policy adopted in 1978 sets forth the process, procedure, and priority for development, sale, and lease of City-owned property for industrial purposes. This policy establishes the criteria for evaluating prospective buyers and lessees, use of proceeds, and other considerations and limitations (if any) related to disposition of the properties suitable for industrial development.

Marketing to Businesses

The Mayor's Office of Economic Growth Services (EGS) and the Chief Operating Officer's Economic Development Division (EDD) should continue to aggressively market the programs described above to business investors large and small. EGS and EDD should continue to explore new networking opportunities through City Council offices and business-related non-profit organizations and government agencies. Underserved areas should be targeted to ensure businesses of all sizes and

profitability are aware of the programs the City provides. Strategic collaborations with local trade organizations, chambers of commerce, and economic development councils, can provide a way to combine resources to maximize the promotion of City economic development efforts.

Sustainable Building Policy – Council Policy 900-14

This Council Policy was adopted in 2003 and established goals related to the development of “LEED certified” and other “green” buildings which are thought to reduce “greenhouse gases” by including design features which reduce energy consumption or replace typically fossil-derived electricity with renewable energy. Specific policies require the use of a variety of “green” or “sustainable” building features and practices in the construction of new City facilities. To encourage similar practices among businesses and developers, expedited permit processing is authorized for qualifying projects.

Updates to the sustainable building policy should be periodically proposed to address changing market conditions and incentivize green building.

Economic Recovery

The national economic recession has adversely affected San Diego. Significantly reduced economic activity overall has led to a persistently high local unemployment rate, currently standing at 10.5 percent as of July 2011. However, there has been improvement in some economic sectors such as retail sales and tourism, which impact the City's major General Fund revenues. The City of San Diego, itself dependent on sales tax revenue to provide General Fund services such as fire and police protection, again faced a projected General Fund revenue shortfall that resulted in difficult decisions and trade-offs to develop a balanced Fiscal Year 2012 budget.

The City continues to focus its efforts on strengthening its economic base and regaining fiscal stability through a number of programs and initiatives:

- Business Support and Expansion Programs
- Economic Roundtables
- Small Business Development Programs

Business Support and Expansion Programs

The City of San Diego remains committed to restoring economic stability and reducing the level of local unemployment. By focusing on its comparative advantages such as its skilled labor force, desirable climate, and its strategic location adjacent to Mexico and the Pacific Rim, San Diego can compete for new job-creating public and private-sector investment. A few of the City's initiatives are outlined below.

Economic Development Efforts

The Mayor is committed to building on the City's economic development programs that have contributed to the economic growth of the business community. This plan for economic recovery continues to be centered on a four-pronged strategy designed to ensure that investment dollars flow into San Diego quickly:

1. A business expansion, attraction, and retention (BEAR) effort designed to highlight the advantages of doing business in San Diego.
2. A regulatory streamlining effort that eliminates duplicative and bureaucratic procedures which do not meaningfully contribute to protecting the public interests.
3. A focus on emerging industries, including the implementation of the Mayor's CleanTech Initiative designed to increase demand for renewable energy (e.g. solar), biofuels, energy efficient solutions, and "green" products as well as food and beverage production.
4. The completion of critical path infrastructure facilities which will be especially attractive to base sector businesses.

The local manufacturing and energy production sectors have achieved stabilized employment levels, particularly in the traditional high technology industries such as biotech & medical devices, cleantech, defense & security systems, and electronics & telecommunications. Emerging industries in the cleantech and food & beverage industry groups continue to advance their technologies and expand local production. In particular, biofuel companies such as BP Biofuels, Menem, New Leaf Biofuels, Sapphire Energy, and Synthetic Genomics have continued to add jobs at existing industrial facilities. Other cleantech companies such as Ecotality have expanded electric charging stations.

Economic Recovery

The food & beverage industries, such as microbrewing and food production, continue to expand in San Diego, increasing exports to the remainder of southern California, other states, and Japan, and in the process, creating new job opportunities for local residents.

The Mayor's Office of Economic Growth Services (EGS) has ramped up its business retention efforts to ensure that businesses remain fully supported and recognized and are able to access State and federal programs. During this time, the Mayor has met with many local manufacturers who have either expanded research & development (R&D), production operations, or are considering expansions.

The BEAR Team provides economic development services to businesses on a citywide basis with a particular focus on the North City industrial parks. BEAR administers the Business & Industry Incentive Program (permit assistance, due diligence, and incentives), Business Cooperation Program (sales and use tax rebates), and the Guaranteed Water for Industry Program (the industrial use of reclaimed water). The BEAR Team also analyzes the fiscal and economic impacts of proposed projects, policies, and other issues that affect economic development within the city.

The Government Incentives Team is focused on State and federal incentive programs for designated geographic areas. The Government Incentives Team programs include: the State Enterprise Zone and Recycling Market Development Zone, the Federal Renewal Community, and the Federal Foreign Trade Zone (for businesses within 60 miles of the Otay Mesa Port of Entry involved in the import/export of merchandise or materials used in the manufacturing/assembly process).

Several significant new projects were completed in Fiscal Year 2011. Otay Mesa projects included: the 300,000 square foot Costco Packaging Center, which will package and distribute Kirkland merchandise to 157 retail outlets in Mexico and the western United States; and Emerald Textiles, a \$20 million high-efficiency commercial laundry. Mira Mesa projects included: expansion of Chromalloy's aircraft engine test and repair facility; expansion of White Labs, a manufacturer of yeast and hops for microbrewing; expansion of Integrated DNA Technologies, a medical device manufacturer; and attraction of cleantech manufacturer Energy Efficiency Corp. University projects included: expansion of Westfield Shopping Town - UTC; expansion of Advanced Bio-Healing, a medical device manufacturer; and a new laboratory for DiscovRx a drug manufacturer. The attraction, retention and expansion of local companies such as these are vital in the City's efforts to create local jobs.

In Fiscal Year 2012 the BEAR Team will work with a number of manufacturing, energy, and service sector businesses which are contemplating expansion or relocation to the City of San Diego. The Government Incentives Team will continue to organize "Your Business Matters" workshops throughout the year to promote the various local, State, and federal business programs to educate businesses on the programs and technical assistance available. Working with the South County Economic Development Council and the regional chambers of commerce, the EGS team will continue to organize workshops targeting accounting, tax professionals, and job developers on the benefits of the incentive program with updates provided by an expert panel of speakers from the Franchise Tax Board and the Internal Revenue Service. Additionally, the Government Incentives Team restructured the City's Foreign Trade Zone Program to enhance international trade opportunities, entice new private investments, and create new distribution jobs.

Tourism Marketing District

In December 2007, the Mayor recommended and the City Council adopted a new Tourism Marketing District to ensure a stable funding source for the marketing of the City to tourists and business travelers. This district collects assessments from hotel operators who may pass on the assessment to customers. The assessments are pooled in order to provide funding for marketing, promotions and

Economic Recovery

special events which generate hotel room night stays. The San Diego Convention & Visitors Bureau receives a guaranteed percentage of funding and is responsible for conducting national advertising campaigns. Other organizations also receive funding to augment these efforts. This dedicated funding source will bolster the City's ability to market San Diego as a visitor destination. An initial resolution to renew the Tourism Marketing District is expected to be presented to the Budget and Finance Committee in November 2011 and to the City Council in December 2011. The final resolution to re-establish the Tourism Marketing District effective January 2013 is expected to be considered by Council in early February 2012.

Economic Roundtables

The Mayor has continued to convene economic roundtables which include business managers from the San Diego region to meet and help shape an agenda to proactively deal with the regional economy.

These areas of continued focus are:

- Retain, grow, and attract companies to promote expansion of existing and emerging business sectors;
- Streamline local regulation for business including planning, permitting, and licensing processes;
- Job creation, employment education, and region-wide efforts to expand a skilled workforce;
- Promote the expansion, attraction and retention of cleantech industries with the object of becoming a recognized leader in the development of clean technology-based products and job creation.

The Mayor has asked the San Diego Regional Economic Development Corporation (SDREDC) to assist him in overseeing the implementation of the next steps associated with these areas of focus as well as to provide regular updates on how we are achieving success in dealing with the regional economy.

Small Business Development Programs

Small businesses are a major contributor to San Diego's economy representing more than 90,000 businesses (approximately 93 percent of all businesses in the City) and about half of San Diego's job growth since 1991. In 1991, the City of San Diego created one of the first municipal offices in California dedicated solely to helping small businesses succeed – the Office of Small Business (OSB). The City also supports programs to help small businesses prosper.

The Office of Small Business, in partnership with the business community and economic development agencies, administers several programs for small business development and retention including the following:

- Business Improvement Districts
- Small Business Enhancement Program
- Storefront Improvement Program
- Community Parking District Program

Economic Recovery

Advocacy and Regulatory Relief

The Office of Small Business (OSB) advocates for small business concerns and coordinates several programs to ensure that small businesses have a voice in many issues that affect their ability to succeed. Additionally, OSB provides other forms of direct assistance to small businesses such as guidance on starting a business, getting licensed, accessing financial resources, contract opportunities, and permit assistance.

Small Local Business Enterprise Program (SLBE)

In order to provide economic opportunity for its residents and businesses and stimulate economic development, the City has implemented various new policies that directly impact how public funds are spent. These policies are aimed at using the power of the public purse to stimulate economic development through the support and empowerment of the local community, especially those aspects of it that have been placed at a disadvantage in the past.

The SLBE Program supports policies that establish restricted competition bid opportunities, contract-by-contract construction project goals, and a 20 percent voluntary goal on Architecture & Engineering consultant, goods & services contracts. It also allows for a minimum bid discount of 2 percent for meeting goals on goods and services contracts. The Program also provides for additional points in negotiated professional services contracts and increased points as the level of small local business participation increases.

The intended impacts include:

- Increasing the number of certified businesses participating in City contracting and in development projects;
- Increasing the circulation of City dollars within the community and thus stimulating a stronger economic base;
- Promoting the development of certified businesses through joint ventures and mentor/protégé relationships.

The new policies provide economic opportunity to local residents and businesses by supporting local economic development while paying competitive prices for goods and services. At the same time, the SLBE Program does not obstruct efforts to attract outside investments that are critical to the City's economic growth.

Future of the City's Economic Health

San Diego's economic policies will continue to focus on the growth of the City's economic base. This base primarily consists of four "clusters" or groups of related industries: manufacturing, international trade and logistics, tourism, and the military.

Manufacturing

The manufacturing sector contributes the largest single economic impact to the regional economy. San Diego's manufacturers are engaged in research and development, manufacturing, sales, distribution, product servicing, and repair activities in a wide range of industries such as biotech & medical devices, cleantech, defense & security systems, electronics & telecommunications, plus food & beverage production. As land and fiscal resources become more constrained due to a variety of factors, regulatory land use policy and fiscal policy (e.g. financial incentives) should be targeted specifically to those private-sector businesses which are both part of the economic base and which have the willingness and ability to create middle income job opportunities for local residents. These businesses are primarily found in the manufacturing sector and have significant job growth potential.

Economic Recovery

Four of the City's 10 largest employers are in this sector and include telecommunications manufacturer QUALCOMM, and three major defense contractors: General Atomics, Northrop Grumman, and Science Applications International. General Atomics has continued to add jobs at its Aeronautical Systems division, and smaller defense sub-contractors have continued to add jobs as well. Medical device, diagnostics, and equipment manufacturers continue to thrive in San Diego, led by Alere, CareFusion, Gen-Probe, and Illumina, each of which generate significant employment opportunities and sales tax revenue for the City. Drug manufacturers Amylin Pharmaceuticals, Celgene, Johnson & Johnson, Novartis, and Pfizer continue to operate major research laboratories in the University Community.

San Diego has a comparative advantage in these industries primarily because of its very high labor quality including ex-military personnel with security clearances, and the continued presence of major primary research institutes and universities such as Sanford-Burnham, Salk, Scripps, UCSD, and related support organizations.

In order to better support the local manufacturing sector, the Mayor has recommended to the City Council that the City apply to the State of California for an expansion of the San Diego Regional Enterprise Zone to include the areas within the communities of Kearny Mesa, Linda Vista and Navajo. Expansion of the Enterprise Zone will provide a strong supply-side stimulus to the local manufacturing sector by permitting these firms to substantially reduce their California income tax. Economic Growth Services anticipates adding at least 30 additional north city industrial parks to the Enterprise Zone in Fiscal Year 2012.

International Trade and Logistics

San Diego's proximity to Mexico provides the City with an important comparative advantage in terms of capturing international trade activity. The Otay Mesa border crossing is adjacent to several large industrial parks containing over 14 million square feet of existing industrial space and over 1,000 acres of developable industrial land. This part of the City has been designated by the State as an Enterprise Zone and portions of it have been designated by the federal government as a Foreign Trade Zone (FTZ). These designations allow logistics businesses to claim lucrative State income tax credits and the ability to defer, reduce, or eliminate trade duties. The availability of several modern vacant distribution centers, comparatively low lease rates, tax and duty advantages, and the completion of the SR-905 Freeway will enable the City to position itself as an attractive location for trade-servicing and logistics companies. The Mayor's Office of Economic Growth Services sought and received authorization from the Federal Department of Commerce to restructure the FTZ site approval process in Fiscal Year 2011, so that local businesses can more easily participate in the program.

Tourism

Because of its warm Mediterranean climate, San Diego is a top-ranked tourist destination. San Diego competes with similar cities such as Los Angeles, San Francisco, Seattle, and Miami for vacationing tourists and business travelers. The construction of the San Diego Convention Center has dramatically improved the City's ability to attract business travelers while retention and enhancement of family-oriented attractions such as the San Diego Zoo, Balboa Park Museums, and Sea World has helped attract vacationing families.

Since opening in 1989, the San Diego Convention Center has generated over \$21.0 billion in regional economic benefits and \$400 million in tax dollars for the City.¹ A Phase 3 expansion of the Convention Center is currently being pursued. It is anticipated the new conventions attracted by the

¹ Statistical information provided by San Diego Convention Center Corporation.

Economic Recovery

expanded facility will bring \$372 million in added visitor spending and \$17 million in new tax revenue annually. The expansion itself will create and support nearly 7,000 new jobs.¹

Military

The City has a long history of accommodating the Department of the Navy, including not only the Pacific Fleet, but also the United States Marine Corps (USMC) and the Space and Naval Warfare Systems Command (SPAWAR), along with several smaller commands. The Department of the Navy has announced its intention to construct several new facilities throughout the County ensuring a long-term presence. Beyond supporting these efforts however, the City can do little to increase or influence the size of the military presence in San Diego. Fortunately, the military has increased its physical presence in San Diego County providing a pillar of stability for the local economy.

Conclusion

The City of San Diego has made it a top priority to focus on economic recovery for the City and its residents. The City's efforts are focused on maintaining the City's position as a military town, a tourism draw, and a manufacturing leader, specializing in the defense, biotechnology, and clean technology industries.

¹ Expansion data provided by Economic Research Associates.